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TAGS: EFIN ECON EINV ENRG PGOV NI
SUBJECT: NIGERIA: PASSAGE OF THE 2008 BUDGET

REF: A. 07 ABUJA 2417
¶B. 07 ABUJA 2227
¶C. 07 ABUJA 1907
¶D. 07 ABUJA 1793

¶1. (U) SUMMARY: President Umaru Musa Yar'Adua signed the 2008 budget appropriation bill into law on April 14, 2008. Due to disagreements between the President and the National Assembly (NA) budget passage was held up for five months, stalling government economic activities. The Government of Nigeria's (GON) 2008 budget is 2.7 trillion naira (N) ($23.4 billion), a 21.5% increase above ¶2007. The budget focused on four critical sectors - security, education, food security and power - which will receive 60% of capital spending. The 2008 budget set the crude oil benchmark price at $59 per barrel, up from the $40 per barrel in the 2007 budget. The crude oil production target remains 2.45 million barrels per day (MBPD) roughly the same as 2007's 2.5 MBPD. Joint venture cash calls (JVCC) between the GON and oil companies are $4.9 billion, up from $4.5 billion in 2007, but far short of $12 billion requested by the Nigerian National Petroleum Corporation (NNPC). The 2008 budget places debt service at N372.2 billion ($3.2 billion), a 25% increase from 2007. The 2008 budget is the administration's first opportunity to fund the President's Seven Point Agenda and advance his economic and development plans. END SUMMARY.
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Budget Stalemate

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¶2. The initial N2.4 trillion ($20.5 billion) budget was presented in November 2007 to the NA (reftels A & B). The NA increased appropriations to N2.9 trillion ($24.8 billion) and sent a spending summary back to the President. President Yar'Adua refused to sign it without full details and demanded cuts. The NA made slight adjustments to trim the budget to N2.7 trillion ($23.1 billion) and returned it to Yar'Adua on March 19, 2008, and again only provided an executive summary. Yar'adua refused to sign the summary and again called for the detailed budget, which was finally forwarded to him on March 28, 2008. The budget contained expenditure items and clauses to which Yar'adua objected and again he refused to sign it. After a series of meetings with the NA leadership, Yar'adua assented to the 2008 budget on April 14, 2008, based on a political compromise that a supplementary bill would be presented to remove spending clauses objected to by the Executive and to accommodate some spending increases regarded crucial by the NA.
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What has changed?

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¶3. The approved 2008 budget has few changes from earlier versions reported in reftels A and B. The most significant changes are the benchmark crude oil price increasing from the proposed $53.83 per barrel to $59 per barrel, and crude oil production estimated at 2.45 MBPD from 2.5 MBPD.

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Federal Expenditures

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¶4. The 2008 budget stands at N2.7 trillion ($23.1 billion), a 21.5% increase from the 2007 budget. It is composed of:
-- Recurrent (non-debt) expenditures including payroll and overhead of N1.3 trillion ($11.1 billion);
-- Capital expenditures of N860.3 billion ($7.4 billion);
-- Statutory transfers of N162.5 billion ($1.4 billion); and
-- Debt service of N372.3 billion ($3.2 billion).
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Capital Expenditures - Big Jump on Transpo

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¶5. Four critical sectors comprise 60% of capital spending: security, education, food security and power. Though total spending by Ministries, Departments and Agencies (MDAs) rose only slightly, these priority sectors received significantly higher allocations in 2008:
-- Security and the Niger Delta: N444.6 billion ($3.8 billion), 20% of the total budget, and a 6.5% increase from 2007;
-- Education: N221 billion ($1.9 billion), 8% of total budget, and a 19% increase from 2007;
-- Transportation: N189.7 billion ($1.6 billion), 7% of total budget, but a 400% increase from 2007.
-- Agriculture and water resources: N134.8 billion ($1.2 billion), 5% of total budget, and a 16% increase from 2007;
-- Energy: N156.1 billion ($1.3 billion), excluding expenditures on National Integrated Power Projects (NIPP) for which GON has decided to seek alternative funding arrangements mainly from the private sector. (COMMENT: Former President Obasanjo's administration, in

December 2004, embarked on the NIPP under which a sum of $2.5 billion was spent, partly financed from the Excess Crude Account. President Yar'Adua made a policy shift by declaring that the private sector will play a leading financing role; however, private sector lenders have been reluctant to led funds to a power sector regarded as bankrupt and corrupt. END COMMENT).
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Statutory Transfers - Big Increases

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¶6. Appropriated statutory transfers in the 2008 budget are N162.57 billion ($1.3 billion), a 26% increase over 2007. Statutory transfers consist of:
-- N78 billion ($666.6 million) to the National Judicial Council, an 81% increase;
-- N69.9 billion ($597.4 million) to the Niger Delta Development Commission, a 74% increase;
-- N44 billion ($376 million) to the Universal Basic Education Commission, a 24% increase.
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Budget 2008 Parameters

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¶7. The 2008 budget parameters are:
-- Crude oil benchmark price of $59 per barrel, up from $53.8 in the November 2007 submission and from $40 per barrel in the 2007 budget. (NOTE: Post will report septel on the current workings of the Excess Crude Account. END NOTE).

-- Crude oil production of 2.45 million barrels per day MBPD, a slight decrease from 2.5 mbpd in 2007.

-- Joint venture cash calls (JVCC) between the GON and the oil companies are $4.9 billion, up from $4.5 billion in 2007. (COMMENT: In early 2007, the NNPC requested an additional $7 billion in JVCC funding to reverse several years of underinvestment in new oil and gas production. Yar'Adua announced in November 2007 that the GON plans to stop funding cash call payments and instead urge joint ventures to raise money from international financial markets. He did not give a time frame but stated the proposed policy will free GON resources paid under joint venture agreements for critical areas like power, education and health. The JVCC requirements presented

by oil companies have often been more than the government could afford and the GON has offered lower amounts -- about $4 billion per year in recent years. END COMMENT).
-- GDP growth of 11%, up from 10% in 2007. (COMMENT: Strong non-oil sector growth in areas like agriculture, mining and quarrying, telecommunications, and rising oil prices are expected to push GDP growth in 2008. However, GDP growth target of 11% will require politically tough and pragmatic economic reforms (reftels C & D). A major challenge for the President is bringing greater stability to the turbulent Niger Delta region, and finding a solution to the ongoing electricity crisis under which nationwide power cuts are commonplace. END COMMENT).
-- Inflation rate at 8.5%, down from 9% in 2007.
-- Exchange rate of N117 to $1, down from N127 in 2007.
-- Value added tax (VAT) rate of 5%, no change from 2007.
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Federal and State Debt

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¶8. At the end of September 2007 the total national debt was N2.6 trillion ($21.8 billion) consisting of N2.15 trillion ($18.4 billion) of domestic debt and N397.5 billion ($3.4 billion) of external debt (includes state and federal government debt). The budget estimates debt service for 2008 at N372.2 billion ($3.2 billion), a 25% increase from 2007, comprising N306.2 billion ($2.6 billion) for domestic debt service and N66 billion ($564.1 million) for foreign debt service. Nigeria's total indebtedness (including state and federal government debt) as a percentage of GDP is 10.4%, which is down from 110% in 1986, 90% in 1996, and 23% in 2006.
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Deficit Financing

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¶9. The 2008 budget appropriation raised the budget deficit from N468 billion ($4 billion) to N560 billion ($4.7 billion). Total projected federal expenditure is N2.7 trillion ($23.4 billion), projected budget deficit is N560 billion ($4.7 billion) or 2.5% of GDP. The projected deficit will be partly financed by the sale of federal government properties valued at N120 billion ($1 billion); N75 billion ($641 million) in other privatization proceeds and signature bonuses; and N200 billion ($1.7 billion) from the domestic bond market.

¶10. COMMENT: The Nigeria's 2008 budget stalemate lasted five months. Because public spending is the engine of the economy, the delay stalled economic activities. The late approval date will make it difficult to fully implement all capital projects in 2008 thereby hurting power, security and infrastructure sectors. Appropriations not spent will return to the federation account. The impact of the 2008 budget will be measured in terms of development improvements for schools, hospitals and roads, and power projects added to the national grid. In addition, with the Public Procurement Office and civil society organizations tracking budget spending we are likely to see a more transparent picture.

¶11. COMMENT CONTINUED: The passage of the 2008 budget is the administration's first opportunity to launch its Seven Point Agenda and advance its economic plan. The Yar'Adua administration hopes to entrench sustainable government expenditure, macroeconomic stability, employment of a realistic budget benchmark oil price, and optimal resource allocations to improve key social indicators (reftels C & D). It is a positive development that the NA and Executive have taken ownership over the budget and are interested in the details, which portends well for greater transparency. END COMMENT

SANDERS